

POLICY ON BOARD/SIO/INVESTMENT SERVICE PROVIDERS/STAFF RESPONSIBILITIES AND RELATIONSHIPS

RELATIONSHIPS

The Nebraska Investment Council (the NIC) has been statutorily given fiduciary responsibility for certain Retirement Plans, the State's Operating Investment Pool, the College Savings Plan, and other trusts and endowments. The State Investment Officer (the SIO) reports directly to the NIC and has responsibility for the overall administration and day-to-day operations of the NIC.

The NIC shall hire such investment consultant (the IC) as it authorizes who shall coordinate with the SIO on all investment matters. The NIC shall also hire various investment managers and other consultants as the NIC shall from time to time approve, all of whom shall report to the SIO. Any Council member who has individual interactions with current or prospective investment service providers shall disclose that interaction at the next NIC meeting at which consideration of the provider is addressed.

The NIC Agency staff shall report to the SIO and interactions with Agency staff shall be through the SIO unless direct contact is authorized by the SIO.

RESPONSIBILITIES*

The NIC shall have the following responsibilities:

- Articulate Fund Objectives.
- Approve and oversee investment philosophy and policies.
- Approve and oversee asset allocation and/or investment structure.
- Approve and oversee asset class strategy and investment guidelines.
- Assess and oversee investment performance for the total portfolio and each asset class.
- Approve and oversee the investment program operating policies (proxy voting, manager monitoring, securities lending, commission recapture, etc.).
- Act on recommendations of the SIO and the IC for selection, retention and termination of investment managers, consultants and custodians (to the extent statutorily required, jointly with an elected official).
- Assure that the investment program is in compliance with laws, regulations, Plan documents, and the custodian agreement.
- Assure cost effective management of the investment program.
- Assure the effective administration/management of the investment program by the SIO.
- For the relevant plans, conduct an asset/liability study every three years and reevaluate the asset allocation annually (after the updated expected rates of return are available from the IC), or as more frequently required by the NIC .

The SIO shall have the following responsibilities:

- A. Investment policy development and implementation
 - 1) Provide oversight to, and coordinate the development of, the State of Nebraska investment policies for the approval of the NIC. Investment policies shall include asset allocation, risk measurement, and return objectives for each investment fund.
 - 2) Investment policy development shall entail a review and selection of acceptable vehicles and structures for the State's investments.
 - 3) Investment policy shall articulate the respective roles in investment decision-making of the NIC, staff, the IC, and investment managers.

- 4) Coordinate the presentation of proposed policies to the NIC and the communication of approved policies to interested parties.
- 5) Determine implementation priorities and time schedules.
- 6) Orchestrate and participate in the recruitment, selection, and contract negotiation process on behalf of the NIC with investment service providers.
- 7) Provide oversight to all implementation activities, including portfolio accounting, cash allocation, and the compliance of the investment funds with applicable state and federal laws and regulations.
- 8) Execute legal documents on behalf of the NIC, including investment advisory and consulting contracts, partnership agreements and commingled fund subscription agreements.

B. Liaison activities

- 1) Coordinate the NIC meetings and activities including development of meeting agendas and the provision of all internal and external reports and presentations on each meeting agenda.
- 2) Inform the NIC members in a timely manner of all significant developments related to State investment programs.
- 3) Communicate regularly, and work cooperatively, with the Executive Director of NPERS, including NPERS meeting attendance.
- 4) Communicate regularly, and work cooperatively, with the State Treasurer.
- 5) Conduct orientation sessions for the new NIC members.
- 6) Represent State investment programs to other State agencies, the Governor's office, Nebraska legislature, federal government agencies and members of the press.

C. Maintain knowledge of current industry trends

- 1) Attend relevant industry conferences, regularly meet with industry representatives, and regularly review industry publications.
- 2) Provide the NIC with periodic educational sessions on investment topics of current relevance.
- 3) Inform the NIC of educational opportunities for fiduciaries.
- 4) Keep current on federal laws, regulations, standards and policies governing the various funds for which the NIC has responsibility.
- 5) Keep current on investment principles, practices, and procedures for all public markets asset classes.
- 6) Be acquainted with the role of actuarial concepts in funding defined benefit retirement plans and providing for payment of promised benefits.

D. In-state investment opportunities

- 1) Regularly meet, and communicate with, State agencies, investment offerors, investment managers, and private investors.
- 2) Monitor and ensure that in-state investment opportunities are objectively and thoroughly evaluated under the State investment programs' investment criteria.

E. Supervise State investment staff

- 1) Develop strategic plan for investment staff.
- 2) Make recommendations regarding staffing requirements and appropriate salary levels to ensure optimal fulfillment of investment staff responsibilities.
- 3) Oversee and participate in the recruitment, selection, and retention of investment staff.
- 4) Administer personnel policies within the State investment office, evaluate staff performance, determine merit increases, oversee staff development and training, and determine appropriate disciplinary actions.

F. Other duties, projects and responsibilities as the NIC may from time to time assign.

The IC shall have the following responsibilities:

- Make recommendations regarding asset allocation and money managers.
- Regularly calculate investment performance and provide systematic review of the performance, including comparison to objectives, benchmarks, etc.
- Monitor investment managers for performance, style attributes, and key personnel changes.
- Participate in investment manager searches.
- Assist in the establishment of benchmarks.
- Provide education as needed and/or requested.
- Bring new ideas/products to the NIC and the SIO that may aid in accomplishing goals.
- Coordinate with the SIO in advance of presentation to the NIC any recommendations and evaluations.

The IC shall be evaluated based on

- 1) The comparison of the long-term rate of return of the Defined Benefit Plans to the actuary's assumed investment rate of return, the achievement of the relative performance objective of being in the top third of the TUCS universe of large (\geq \$1 billion) public funds, and the implementation analysis of actual return measured against strategy return.
- 2) Responsiveness to the requests of the NIC and the SIO.

The NIC Agency staff shall have the following responsibilities:

- Perform those duties and responsibilities as are assigned to them by the SIO.

*Additional specific responsibilities may be found in the Investment Policy Statement for each Fund managed by the NIC.

Approved on October 7, 2003.
Last revision January 19, 2004.